CHINA TRADITIONAL CHINESE MEDICINE CO. LIMITED
中國中藥有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 570)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2013

RESULTS HIGHLIGHTS

	Year ended 31 December		
	2013	2012	
	RMB'000	*RMB'000* (Restated)	Change
Turnover	**1,394,613**	1,031,766	35.2%
Gross Profit	**825,779**	564,013	46.4%
Profit from operations	**272,757**	235,795	15.7%
Profit before taxation	**237,575**	216,406	9.8%
Profit attributable to equity shareholders of the Company	**198,463**	168,526	17.8%
Basic earnings per share *(RMB cent)*	**9.68**	9.45	2.4%

CHAIRMAN'S STATEMENT

I would like to express my gratitude to our shareholders and people from all circles for their continued attention and substantial support to the Group. On behalf of the board (the "Board") of directors (the "Directors") of China Traditional Chinese Medicine Company Limited (the "Company"), I am pleased to present the audited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2013:

PERFORMANCE SIGNIFICANTLY IMPROVED

The year of 2013 is a milestone of the Group. At the beginning of the year, the Group was indirectly controlled by China National Pharmaceutical Group Corporation ("CNPGC"), the largest business group of healthcare industry in China. In October the same year, the Group completed the acquisition of Tongjitang Chinese Medicines Company and its subsidiaries ("Tongjitang"). Such deals have set a solid foundation for the business development of the Group in the future.

Pursuant to HKASs, the Group consolidated Tongjitang's financial statements starting November 2013, upon completion of the acquisition. In retrospect, the audited revenue of the Group was approximately RMB1,394,613,000, representing an increase of 35.2% compared to approximately RMB1,031,766,000 in the corresponding period of last year; the audited profit attributable to shareholders reached approximately RMB198,463,000, representing a growth of 17.8% compared with approximately RMB168,526,000 in the corresponding period of last year. Audited earnings per share for the year also slightly increased to RMB9.68 cents from RMB9.45 cents from last year, representing an increase of 2.4%.

TEAM UP STRONG HANDS TO ACHIEVE SYNERGY

In May 2013, the Group announced the acquisition of 100% issued share capital of Tongjitang at the consideration of RMB2.64 billion, and concluded the transaction in October in the same year. On the date of completion, the fair value of the consideration paid by the Group was assessed as RMB2.62 billion. To the best knowledge of the Group, the acquisition of Tongjitang was the largest M&A deal in pharmaceutical industry of China in 2013, and was successfully completed within 5 months, which set a classic case of M&A in China.

By the end of 2013, the Group has completed the restructuring of the sales and marketing force and has set up a centralized sales and marketing management team. Starting 2014, the re-organised sales and marketing force will be responsible for the promotion and selling of all products of the Group, covering both hospital and OTC market in over 20 provinces, autonomous regions and municipalities throughout mainland China.

The Group has also set up its finance center, R&D center, manufacturing center, purchasing center and human resource center, as well as issued unified rules and regulations for each of the management center, with the purpose of achieving synergy from all functions of the business. Currently, the Group owns 11 manufacturing facilities in Guangdong, Guizhou, Anhui, Shandong and Qinghai, with over 50 GMP certified production lines, which produce more than 20 dosage formats, including capsule, tablet, granule, and etc. The Group will allocate its manufacturing resources based on factors of market demand, product characteristic, production capacity to reduce cost and to raise efficiency. The Group centralized its purchasing of bulk materials, using a tender system, to strengthen its bargaining power, reduce purchase price and save costs.

The Group expects completing the consolidation at the end of first quarter of 2014.

MERGE INTO CNPGC TO BUILD UP TCM FLAGSHIP

In February 2013, Sinopharm Hong Kong, an indirect wholly-owned subsidiary of CNPGC, acquired approximately 56.97% of the entire issued share capital of the Group, and CNPGC is the ultimate controlling shareholder. Consequently, the Group changed its name to China Traditional Chinese Medicine Co., Ltd. in November 2013, demonstrating its status in TCM industry.

Directly under the management of State-owned Assets Supervision and Administration Commission of the State Council, CNPGC is the largest state-owned business group in pharmaceutical industry in China and is one of the Fortune 500 companies in the world. The Group is the flagship company of CNPGC's TCM businesses, and will be the leader of TCM industry in China.

The Group owns the well-known brands of "Dezhong", "Fengliaoxing" and "Tongjitang", all with a long history, and is dedicated to the responsibility of inheriting and developing the essence of Chinese medicine. The Group has created and enhanced the brand of "China TCM" as the parent brand, with the purpose of building up and strengthening its advantageous position in the market.

Currently, the Group possesses production approvals of over 500 Chinese medicines and chemical drugs, including over 60 exclusive products. The Group has 26 exclusive products being listed on National Drugs List for Basic Medical Insurance, among which, Xianling Gubao Capsule/Tablet (仙靈骨葆膠囊／片), Yu Ping Feng Granule (玉屏風顆粒), Bi Yan Kang Tablet (鼻炎康片), Jingshu Granule (頸舒顆粒), Moisturising & Anti-Itching Capsule (潤燥止癢膠囊), Fengshi Gutong Capsule (風濕骨痛膠囊) and Zaoren Anshen Capsule (棗仁安神膠囊) are exclusive products on National Essential Drug List. A diversified product portfolio will facilitate the Group in exploring demand opportunity, enlarging market share and increasing sales revenues.

CARRY ON WITH ORGANIC GROWTH AND M&A STRATEGY

Along with economic development in China, people invest more on their health. China has an expanding aging population, which results in increasing spending on healthcare. Both central and local government have raised the expenditure on improving the level of health of Chinese people. All the above mentioned factors provide a growing market opportunity for the pharmaceutical industry. Traditional Chinese medicine has a long history. Its unique advantages in enhancing health, curing and relieving diseases have been proved by practitioners over centuries. The Group possesses a diversified product portfolio, with many of its exclusive products being listed on National Essential Drug List and National Drugs List for Basic Medical Insurance. The Group will benefit from the growth of healthcare market and the support to TCM sector from government. The Group has achieved a track record of rapid growth during the past years and is determined to maintain the momentum in the future.

There is a large number of pharmaceutical companies in China, resulting in fragmented market share. Many of the companies have the problems of limited resource, shortage of capital and no competitive advantage. As the government authorities are more rigorous on regulating the industry, there is a clear trend of consolidation among the pharmaceutical companies. While carrying on with organic growth, the Group is seeking for M&A targets to enhance its market power and reputation. The Group will focus on TCM, looking for M&A opportunity in all areas in the sector.

The Group will face both opportunities and challenges in the year of 2014. It is the first year for the Group to produce fully consolidated financial statements after acquiring Tongjitang. Following the completion of the consolidation, synergy from all aspects of the business will be revealed gradually. On the other hand, the ongoing change of government policy and the intense competition during the process of industry consolidation impose challenges toward the organic growth and M&A strategy of the Group.

With a solid business foundation, numerous market opportunities, efficient and flexible financing channels, and strong support from its shareholders, the Group will be the leader of TCM industry, achieving ongoing growth of revenues and profits and creating value for all shareholders.

MANAGEMENT DISCUSSION AND ANALYSIS

GROUP OVERVIEW

The Group is a leading pharmaceutical company in China with excellent brands. It has a total of 332 products and 526 product specifications, 68 of which are national exclusive products. The Group has 58 products being listed on the new edition of National Essential Drugs List, 7 of which are exclusive products, namely Xianling Gubao Capsule/Tablet (仙靈骨葆膠囊／片), Yu Ping Feng Granule (玉屏風顆粒), Bi Yan Kang Tablet (鼻炎康片), Jingshu Granule (頸舒顆粒), Moisturising & Anti-Itching Capsule (潤燥止癢膠囊), Fengshi Gutong Capsule (風濕骨痛膠囊) and Zaoren Anshen Capsule (棗仁安神膠囊). The Group has over 150 products being listed on National Drugs List for Basic Medical Insurance, 26 of which are exclusive products. Furthermore, the Group has been advocating for TCM manufacturing for over 400 years, and is in possession of a range of TCM formulas, many of them are national famous products, such as Po Chai Pills (保濟丸), Da Huo Luo Pills (大活絡丸), Shaolin Dieda Herbal Plaster (少林跌打止痛膏), Yuanjilin Herbal Tea (源吉林甘和茶), etc. The Group has accumulated extensive technical experience in extraction of Chinese medicinal herbs, preparation of modern Chinese medicine, sustained or controlled release preparation, manufacturing of traditional Big Candid Pills (大蜜丸) and enhancement of quality.

The Group has 11 manufacturing facilities in Foshan of Guangdong Province, Guiyang and Kaili of Guizhou Province, Xuancheng of Anhui Province, Jining of Shandong Province and Xining of Qinghai Province, with over 50 GMP certified production lines and annual production capacity of 800 million packs of granules, 5.5 billion tablets, 3 billion capsules, 14 million bottles of medical wine, and 100 million jabs of antibiotics and oncology powder for injection, as well as 22,000 tonnes of Chinese medicine preprocessing and extraction.

In retrospect, sales of TCM accounted for approximately 83.2% of the turnover of the Group, sales of chemical medicine made up approximately 14.0% of the turnover, and sales of bio-medicine was approximately 2.8% of the turnover. The Group's sustainable development in the future is closely related to the implementation of the National Essential Drugs system and the development Chinese medicine industry.

INDUSTRY OVERVIEW

New Edition of National Essential Drugs List

On 15 March 2013, central government launched the new edition of National Essential Drugs List, which contains 317 chemical and bio-medicines and 203 TCM. Following the issue of the new edition of National Essential Drugs List, more-detailed policies were released, such as further optimizing the tendering system of essential drugs, rules on the percentage of purchasing and using essential drugs for each category of healthcare institutions, etc.

With the tendering system of essential drugs, the government authorities focus on both quality and price. Passing the new GMP certification is a vital benchmark for quality assessment, while exclusive products have clear advantage at price negotiation. The Group has been making efforts to maintain and to improve quality standard of its products. 7 of the 11 facilities have passed the new GMP certification, and the remaining 4 are expected to pass it in 2014. Furthermore, most of the revenues of the Group are generated by its exclusive products on National Essential Drug List, which provides the Group with a favourable position.

In respect of rules on the percentage of purchasing and using essential drugs for each category of healthcare institutions, National Health and Family Planning Commission indicated that it is necessary to accelerate the formulation of administrative measures for the use of essential drugs by healthcare institutions in each level and category, revise and optimize the Guideline for the Clinical Application and Prescription Catalogue of National Essential Drugs and motivate healthcare institutions in each level and category to stock up and give priority in using essential drugs. It also stated that primary healthcare institutions run by local government should fully stock up and use essential drugs, while class 2 and class 3 hospitals shall prescribe essential drugs by a reasonable percentage of their total prescription. The healthcare institutions should enhance the promotion and training in using the Guideline for the Clinical Application and Prescription Catalogue of National Essential Drugs and promote the priority of using essential drugs at a reasonable degree. By implementing such policies, it is expected that the consumption volume of essential drugs in total and as a percentage of the entire consumption of drugs will increase, especially in class 2 and class 3 hospitals. Thus, the introduction of the new edition of National Essential Drugs List would provide tremendous market opportunities to the Group in the future.

Opportunity for Chinese Medicine Industry

Chinese medical diagnosis and treatment focus on curing illnesses fundamentally, recuperation and improving patient's living habit and physical functions. Chinese medicines are made from natural substance with minimal toxic side effect and drugs resistance, therefore particularly suitable for chronic diseases and specialty medicines with relatively low treatment costs. As aging population in China has created huge demand for healthcare services and products, it will lead Chinese medicine industry into its golden age and open opportunities for the Group for sustainable development in the future.

Government has always been granting support to the development of TCM industry. On 17 April 2013, the State Administration of Traditional Chinese Medicine issued "Notice Regarding the Key Aspects in Administration of Traditional Chinese Medicine for the Year 2013" (關於印發2013年中醫醫政工作要點的通知), which encouraged reform of public TCM hospital, promoted and regulated additional Chinese medicines supplemented to National Essential Drug List , amended the Guidelines for Clinical Application of Chinese medicines in National Essential Drug List , strengthened the training and examination for practitioners in respect of the use of Chinese medicines , continued optimizing TCM policy in medical insurance mechanism, continued supervising local governments to extend the coverage of Basic Medical Insurance to qualified TCM diagnosis, treatment and medicines (including Chinese herbal slice, Chinese medicines and preparations) , raised the reimbursement level of TCM under the New Rural Cooperative Medical System, enhanced the basic functions of TCM hospitals at county level and improved the medical service quality.

On 9 July 2013, National Health and Family Planning Commission issued "Notice regarding Fully Exploiting Advantage of the Characteristics of TCM in the Pilot Schemes of Comprehensive Reforms of Public Hospitals at County Level" (關於在縣級公立醫院綜合改革試點工作中充分發揮中醫藥特色優勢的通知), which encouraged prescribing Chinese medicines to patients covered by medical insurance, extended the coverage of Basic Medical Insurance to qualified Chinese medical diagnosis and treatment and TCM products (including Chinese herbal slice, Chinese medicines and preparations) and raised the reimbursement level of TCM under the New Rural Cooperative Medical System. The Group generates the majority of its sales revenues from TCM products and will benefit from government policies of developing Chinese medicine industry.

Policies of Hospital Reform

On 14 October 2013, the State Council issued "Opinions on Promoting the Development of Health Service Industry" (關於促進健康服務業發展的若干意見), which suggested accelerating the opening of health service industry. It proposed that the industry should open for private investment to the extent as long as it is not prohibited by laws. Besides, it advocated introducing new financing channel and encouraging financial institutions to develop financial tools and products specifically designed for health service industry, and strongly supporting listing of and debt issue by qualified health service enterprise. In addition, it also suggested more support from fiscal and land planning policy, and proposed, for the first time, to include private health service enterprise for the purpose of government subsidy.

On 9 January 2014, National Health and Family Planning Commission issued "Opinions on Encouraging Establishment of Private Hospital" (關於加快發展社會辦醫的若干意見), which suggested that (1) the development scale of public hospital be strictly controlled and private funding be allowed to invest in public hospital; (2) provincial government be authorized for the approval of foreign-owned and sino-foreign joint-venture hospitals; (3) limitation for service providers from Hong Kong, Macau and Taiwan to set up wholly-owned hospital in the Mainland be extended. National Health and Family Planning Commission undertook that private hospital would enjoy equal status with public hospital in respect of medical insurance mechanism.

BUSINESS REVIEW

The Group changed its presentation currency from Hong Kong dollars to RMB on 25 November 2013, as RMB is the functional currency of the Group's major subsidiaries in the PRC. The consolidated financial statements for the year ended 31 December 2012 with an additional statement of financial position as at 31 December 2011 have been re-translated into RMB from HKD.

Sales of Products

During the year under review, the Group's turnover increased by 35.2% from approximately RMB1,031,766,000 for the corresponding period last year to approximately RMB1,394,613,000, which was mainly attributable to the sales and marketing strategy of key products, for instance, Yu Ping Feng Granule, to expand the coverage of primary healthcare institutions, and the price increase for certain products. Moreover, Tongjitang contributed satisfactory results in November and December of 2013.

Analysis by TCM, Chemical and Bio-medicine:

	For the year ended 31 December				
	2013	**Percentage to turnover**	2012	Percentage to turnover	Change
	RMB'000		*RMB'000*		
TCM	**1,160,708**	**83.2%**	854,727	82.8%	35.8%
Chemical medicine	**195,424**	**14.0%**	177,039	17.2%	10.4%
Bio-medicine	**38,481**	**2.8%**	–	–	Nil
Total	**1,394,613**	**100.0%**	1,031,766	100.0%	35.2%

Sales Analysis of Top Ten Products:

	For the year ended 31 December				
	2013	**Percentage to turnover**	2012	Percentage to turnover	Change
	RMB'000		*RMB'000* (Restated)		
Yu Ping Feng Granule (玉屏風顆粒)	**218,459**	**15.7%**	167,316	16.2%	30.6%
Bi Yan Kang Tablet (鼻炎康片)	**215,338**	**15.4%**	221,482	21.5%	–2.8%
Xianling Gubao (仙靈骨葆)	**207,340**	**14.9%**	–	–	Nil
Sheng Tong Ping (聖通平)	**90,231**	**6.5%**	88,787	8.6%	1.6%
Feng Liao Xing Medicinal Wine (馮了性藥酒)	**85,102**	**6.1%**	86,793	8.4%	–1.9%
Gao De (高德)	**61,066**	**4.4%**	56,224	5.4%	8.6%
Jingshu Granule (頸舒顆粒)	**38,238**	**2.7%**	–	–	Nil
Moisturising & Anti-Itching Capsule (潤燥止癢膠囊)	**30,942**	**2.2%**	–	–	Nil
Albumin Prepared from Human Plasma (人血白蛋白)	**29,994**	**2.2%**	–	–	Nil
Shedan Chuanbei San (蛇膽川貝散)	**25,086**	**1.8%**	15,272	1.5%	64.3%
Other Products	**392,817**	**28.1%**	395,892	38.4%	–0.8%
Total	**1,394,613**	**100.0%**	1,031,766	100.0%	35.2%

Remark: the sales amount of Xianling Gubao, Jingshu Granule and Moisturising & Anti-Itching Capsule, which are products of Tongjitang, is the revenue achieved in November and December of 2013. The sales amount of Albumin Prepared from Human Plasma, which is a product of Guizhou Zhongtai Biological Technology Company Limited ("Guizhou Zhongtai"), is the revenue achieved in the year of 2013.

Research and Development

The Group applied the knowhow of controlling sustained-release by multi-layers of films in developing Nifedipine Sustained-release Tablet (30mg), and received the approval of production from China Food & Drug Administration in December 2013. The new product has clear cost advantage over the same product in the market from competitors, which will place the Group in a favourable position at tenders of essential drugs. The Group is formulating the sales and marketing plan of 2014 for the new product.

The Group also applied to China Food & Drug Administration for the approval of production for Fexofenadine/Pseudophedrine Sustained-release capsule (非索僞麻緩釋膠囊), and expects receiving such approval in 2014.

In April 2013, the Group initiated the project of "Yu Ping Feng Granule (玉屏風顆粒) Re-evaluation". The project will have several phases, including collection of typical cases of targeted diseases, analysis of the efficacy mechanism, clinical trials with reasonable sample size, etc. The purpose is to provide more solid medicinal theoretical foundation for prescribing Yu Ping Feng Granule (玉屏風顆粒) to the appropriate patients, so that it would be helpful to our academic promotion of the product to different categories of healthcare institutions. The project is expected to last for several years and may attract financial subsidy from relevant government institutions.

At the end of 2013 and the beginning of 2014, the Group entered into several contracts with Shanghai Institute of Pharmaceutical Industry (上海醫藥工業研究院) and other research institutes for R&D of new products and further study of existing products, including 3 new TCM products and first version of 5 generic drugs. Based on the assessment on the trend of demand, as well as the characteristics of the current product portfolio, the Group will focus on R&D projects related to diseases of aging population, such as cerebro-cardiovascular drugs.

Progress of Investment Projects

Guizhou Zhongtai and its subsidiaries

On 6 March 2014, the Group entered into a termination agreement with Foshan Shunde Hefeng Investment Co., Ltd. to terminate the disposal agreement signed on 26 August 2013 between the two parties, ceasing the sale of 51% equity capital of Guizhou Zhongtai and its subsidiaries. The Group expects the performance of Guizhou Zhongtai and its subsidiaries being improved significantly in the foreseeable future. As compared to selling off the company, retaining Guizhou Zhongtai and its subsidiaries as a subsidiary will bring in more benefit for shareholders of the Group.

In 2013, Guizhou Zhongtai and its subsidiaries achieved sales revenues of approximately RMB38,481,000, and turned loss into profit of approximately RMB844,000.

Construction of Headquarter Building

On 14 August 2013, the Group acquired a land parcel at the south part of Kui Qi Road and the east part of Ling Nan Road, Chan Cheng Area, Foshan City of Guangdong Province. The Group will construct its headquarter, R&D center and annex buildings on the land parcel. The Group is working with an independent third party to develop the project. The allocation of the space of the buildings will be based on the amount of investment from each of the two parties. The construction plan is under review by government authorities. The Group expects the project to be completed in 2016.

Manufacturing Facilities at Guiyang Economic & Technology Development Zone

In 2013, the Group acquired a land parcel of 330 mus at Guiyang Economic & Technology Development Zone, Guizhou Province, for building up an orthopedic Chinese medicine manufacturing base (Tongjitang new factory). The project is under planning, and the construction work will be started in 2014. The facilities will be in full compliance with new GMP requirements and, upon putting in use, will significantly improve the production capacity of the Group. It is expected the project will be completed in the first half of 2016.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the year ended 31 December 2013

(Expressed in Renminbi)

	Note	**2013**	2012
		RMB'000	*RMB'000*
			(Restated)*
Turnover	*2(a)*	**1,394,613**	1,031,766
Cost of sales		**(568,834)**	(467,753)
Gross profit		**825,779**	564,013
Other revenue	*3*	**15,769**	25,118
Other net income	*3*	**8,146**	197
Selling and distribution costs		**(404,629)**	(235,661)
Administrative expenses		**(172,308)**	(117,872)
Profit from operations		**272,757**	235,795
Finance costs	*4(a)*	**(35,182)**	(19,389)
Profit before taxation	*4*	**237,575**	216,406
Income tax	*5*	**(38,218)**	(43,389)
Profit for the year		**199,357**	173,017
Attributable to:			
Equity shareholders of the Company		**198,463**	168,526
Non-controlling interests		**894**	4,491
Profit for the year		**199,357**	173,017
Earnings per share			
Basic and diluted	*6*	**9.68 cent**	9.45 cent

* See note 1(c)(i)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2013

(Expressed in Renminbi)

	Note	**2013**	2012
		RMB'000	*RMB'000*
			(Restated)*
Profit for the year		**199,357**	173,017
Other comprehensive income for the year (after tax)			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of subsidiaries outside the People's Republic of China (the "PRC")		**(1,149)**	(1,597)
Available-for-sale securities: net movement in fair value reserve		–	1,405
Other comprehensive income for the year		**(1,149)**	(192)
Total comprehensive income for the year		**198,208**	172,825
Attributable to:			
Equity shareholders of the Company		**197,314**	168,334
Non-controlling interests		**894**	4,491
Total comprehensive income for the year		**198,208**	172,825

* See note 1(c)(i)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31 December 2013

(Expressed in Renminbi)

	Note	**2013**	2012	2011
		RMB'000	*RMB'000*	*RMB'000*
			(Restated)*	(Restated)*
Non-current assets				
Fixed assets				
– Investment properties		**2,813**	2,752	2,777
– Other property, plant and equipment		**636,429**	333,801	205,183
– Interests in leasehold land held for own use under operating leases		**156,450**	82,805	161,748
Construction in progress		**89,245**	34,516	71,229
Other receivables	*9*	**161,464**	14,407	30,547
		1,046,401	468,281	471,484
Intangible assets	*7*	**997,351**	73,691	82,405
Goodwill	*8*	**1,191,052**	169,170	169,170
Other financial assets		**1,010**	8,627	6,973
Deferred tax assets		**52,506**	19,960	10,334
		3,288,320	739,729	740,366
Current assets				
Other financial assets		**6,164**	76,779	66,000
Inventories		**405,504**	161,043	189,651
Trade and other receivables	*9*	**1,016,832**	442,786	281,225
Deposits with banks		**4,239**	87,625	3,988
Cash and cash equivalents		**345,411**	46,258	34,336
		1,778,150	814,491	575,200

* See note 1(c)(i)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)
at 31 December 2013
(Expressed in Renminbi)

	Note	2013	2012	2011
		RMB'000	*RMB'000*	*RMB'000*
			(Restated)*	(Restated)*
Current liabilities				
Trade and other payables	*10*	**595,763**	205,812	195,215
Bank and other loans		**583,626**	414,420	276,101
Current taxation		**50,469**	25,941	9,932
Current portion of deferred government grants		**34,530**	3,079	2,619
		1,264,388	649,252	483,867
Net current assets		**513,762**	165,239	91,333
Total assets less current liabilities		**3,802,082**	904,968	831,699
Non-current liabilities				
Deferred tax liabilities		**269,600**	44,814	41,013
Deferred government grants		**29,449**	14,383	8,915
Bank loans		**668,270**	–	–
		967,319	59,197	49,928
NET ASSETS		**2,834,763**	845,771	781,771
CAPITAL AND RESERVES				
Share capital		**235,087**	175,589	175,589
Reserves		**2,524,766**	652,865	593,356
Total equity attributable to equity shareholders of the Company		**2,759,853**	828,454	768,945
Non-controlling interests		**74,910**	17,317	12,826
TOTAL EQUITY		**2,834,763**	845,771	781,771

* See note 1(c)(i)

1 Significant accounting policies

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 1(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2013 comprise the Company and its subsidiaries (together referred to as the "Group").

The measurement basis used in the preparation of the financial statements is the historical cost basis except that certain financial instruments classified as available-for-sale are stated at their fair value.

Non-current assets and disposal groups held for sale are stated at the lower of carrying amount and fair value less costs to sell.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

(c) Changes in accounting policies

(i) Changes in presentation currency

The Company and other investment holding subsidiaries incorporated in the Cayman Islands, British Virgin Islands and Hong Kong have their functional currencies in United States dollars ("USD") or Hong Kong dollars ("HKD") and subsidiaries established in PRC have their functional currencies in Renminbi ("RMB"). Along with the successful acquisition of Tongjitang Chinese Medicines Company and its subsidiaries ("Tongjitang") on 23 October 2013, the Company determined to change its presentation currency from Hong

Kong dollars to RMB, which is the functional currency of the Company's major subsidiaries in the PRC, on 25 November 2013. The consolidated financial statements for the year ended 31 December 2012 with an additional statement of financial position as at 31 December 2011 have been re-translated into RMB from HKD. All financial information presented in RMB has been rounded to the nearest thousand.

(ii) New standards and interpretations not yet adopted

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

- Amendments to HKAS 1, *Presentation of financial statements – Presentation of items of other comprehensive income*
- HKFRS 10, *Consolidated financial statements*
- HKFRS 12, *Disclosure of interests in other entities*
- HKFRS 13, *Fair value measurement*
- *Annual Improvements to HKFRSs 2009-2011 Cycle*
- Amendments to HKFRS 7 – *Disclosures – Offsetting financial assets and financial liabilities*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Impacts of the adoption of the new or amended HKFRSs are discussed below:

Amendments to HKAS 1, Presentation of financial statements – Presentation of items of other comprehensive income

The amendments require entities to present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The presentation of other comprehensive income in the consolidated statement of profit or loss and other comprehensive income in these financial statements has been modified accordingly. In addition, the Group has chosen to use the new titles "statement of profit or loss" and "statement of profit or loss and other comprehensive income" as introduced by the amendments in these financial statements.

HKFRS 10, Consolidated financial statements

HKFRS 10 replaces the requirements in HKAS 27, *Consolidated and separate financial statements* relating to the preparation of consolidated financial statements and HK-SIC 12 *Consolidation – Special purpose entities*. It introduces a single control model to determine whether an investee should be consolidated, by focusing on whether the entity has power over the investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect the amount of those returns.

As a result of the adoption of HKFRS 10, the Group has changed its accounting policy with respect to determining whether it has control over an investee. The adoption does not change any of the control conclusions reached by the Group in respect of its involvement with other entities as at 1 January 2013.

HKFRS 12, Disclosure of interests in other entities

HKFRS 12 brings together into a single standard all the disclosure requirements relevant to an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The disclosures required by HKFRS 12 are generally more extensive than those previously required by the respective standards.

HKFRS 13, Fair value measurement

HKFRS 13 replaces existing guidance in individual HKFRSs with a single source of fair value measurement guidance. HKFRS 13 also contains extensive disclosure requirements about fair value measurements for both financial instruments and non-financial instruments. The adoption of HKFRS 13 does not have any material impact on the fair value measurements of the Group's assets and liabilities.

Annual Improvements to HKFRSs 2009-2011 Cycle

This cycle of annual improvements contains amendments to five standards with consequential amendments to other standards and interpretations. Among them, HKAS 1 has been amended to clarify that an opening statement of financial position is required only when a retrospective application of an accounting policy, a retrospective restatement or a reclassification has a material effect on the information presented in the opening statement of financial position. The amendments also remove the requirement to present related notes to the opening statement of financial position when such statement is presented.

Since the Group considers that the restatement resulting from the change of presentation currency in note 1(c)(i) has a material impact on the opening financial position, an additional statement of financial position as at 1 January 2012 has been presented in these financial statements.

Amendments to HKFRS 7 – Disclosures – Offsetting financial assets and financial liabilities

The amendments introduce new disclosures in respect of offsetting financial assets and financial liabilities. Those new disclosures are required for all recognised financial instruments that are set off in accordance with HKAS 32, *Financial instruments: Presentation* and those that are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments and transactions, irrespective of whether the financial instruments are set off in accordance with HKAS 32.

The adoption of the amendments does not have an impact on these financial statements because the Group has not offset financial instruments, nor has it entered into master netting arrangement or similar agreement which is subject to the disclosures of HKFRS 7 during the periods presented.

2 Turnover and segment reporting

(a) Turnover

The principal activities of the Group are manufacturing and sale of pharmaceutical products in the PRC. Turnover represents the sales value of goods sold less returns, discounts, value added tax, and sales tax and is analysed as follows:

	2013	2012
	RMB'000	RMB'000
		(Restated)
Sales of pharmaceutical products		
– Pills and tablets	**800,851**	512,831
– Granules	**287,594**	177,405
– Injections	**118,896**	75,255
– Medicine wine	**85,102**	86,793
– Others	**102,170**	179,482
	1,394,613	1,031,766

Further details regarding the Group's principal activities are described below:

(b) Segment reporting

The Group manages its businesses by subsidiaries. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following eleven reportable segments. No operating segments have been aggregated to form the following reportable segments.

- Foshan Dezhong Pharmaceutical Co., Ltd. ("Dezhong")
- Foshan Feng Liao Xing Pharmaceutical Co., Ltd. ("Feng Liao Xing")
- Guangdong Medi-World Pharmaceutical Co., Ltd. ("Guangdong Medi-World")
- Shandong Luya Pharmaceutical Co., Ltd. ("Luya")
- Foshan Feng Liao Xing Medicinal Material & Slices Co., Ltd. ("Feng Liao Xing Material & Slices")
- Foshan Winteam Pharmaceutical Sales Company Limited ("Winteam Sales")
- Guizhou Tongjitang Pharmaceutical Co., Ltd. ("Tongjitang Pharmaceutical")

- Anhui Jingfang Pharmaceutical Co., Ltd. (“Jingfang”)
- Guizhou Longlife Pharmaceutical Co., Ltd. (“Guizhou LLF”)
- Qinghai Pulante Pharmaceutical Co., Ltd. (“Pulante”)
- Guizhou Zhongtai Biological Technology Company Limited (“Guizhou Zhongtai”)

(i) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group’s senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible, intangible assets and current assets with the exception of investments in financial assets, deferred tax assets and other corporate assets. Segment liabilities include trade payables, and accruals attributable to the manufacturing and sales activities of the individual segments and bank borrowings managed directly by the segments.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

The measure used for reporting segment profit is “adjusted EBITDA” i.e. “adjusted earnings before interest, taxes, depreciation and amortisation”, where “interest” is regarded as including investment income. To arrive at adjusted EBITDA the Group’s earnings are further adjusted for items not specifically attributed to individual segments, such as directors’ and auditors’ remuneration and other head office or corporate administration costs.

In addition to receiving segment information concerning adjusted EBITDA, management is provided with segment information concerning revenue (including inter-segment sales), interest income and expense from cash balances and borrowings managed directly by the segments, depreciation, amortisation and additions to non-current segment assets used by the segments in their operations.

Information regarding the Group’s reportable segments as provided to the Group’s most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2013 and 2012 is set out below.

Year ended 31 December 2013

	Dezhong	Feng Liao Xing	Guangdong Medi-World *(Note)*	Luya	Feng Liao Xing Material & Slices	Winteam Sales	Tongjitang Pharmaceutical	Jingfang	Guizhou LLF	Pulante	Guizhou Zhongtai	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue from external customers	10,303	11,226	15,432	46,614	24,281	930,859	254,872	48,946	7,492	6,107	38,481	1,394,613
Inter-segment revenue	302,569	216,479	314,691	22,230	114,388	4,803	–	–	–	–	–	975,160
Reportable segment revenue	312,872	227,705	330,123	68,844	138,669	935,662	254,872	48,946	7,492	6,107	38,481	2,369,773
Reportable segment profit (adjusted EBITDA)	95,765	44,377	99,539	21,822	5,039	10,975	74,718	12,079	2,174	2,103	12,226	380,817
Interest income	40	25	7,386	10	–	–	110	121	6	17	33	7,748
Interest expenses	11,286	5,229	9,447	–	124	1,470	7,107	–	–	–	519	35,182
Depreciation and amortisation for the year	19,542	6,310	14,225	6,473	262	339	8,918	390	24	201	11,597	68,281
Reportable segment assets	1,085,293	464,179	738,298	158,040	318,383	493,046	2,798,319	246,733	35,222	58,926	319,172	6,715,611
Additions to non-current assets during the year	19,608	2,484	146,245	3,364	37	1,615	1,126,012	105,160	2,013	32,117	129,088	1,567,743
Reportable segment liabilities	592,015	205,949	774,707	16,278	293,933	512,606	366,712	120,983	7,387	14,406	103,643	3,008,619

Year ended 31 December 2012 (Restated)

	Dezhong	Feng Liao Xing	Guangdong Medi-World *(Note)*	Luya	Feng Liao Xing Material & Slices	Winteam Sales	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue from external customers	143,750	70,552	125,429	54,628	20,555	616,852	1,031,766
Inter-segment revenue	172,739	135,836	183,999	9,355	105,541	–	607,470
Reportable segment revenue	316,489	206,388	309,428	63,983	126,096	616,852	1,639,236
Reportable segment profit (adjusted EBITDA)	96,998	34,358	117,453	20,237	5,192	(65)	274,173
Interest income	797	55	19,250	–	–	163	20,265
Interest expenses	5,056	4,047	7,885	–	2,331	70	19,389
Depreciation and amortisation for the year	11,713	5,636	12,168	5,658	246	308	35,729
Reportable segment assets	625,475	305,697	235,670	141,753	50,984	283,954	1,643,533
Additions to non-current assets during the year	70,835	5,446	16,730	7,732	393	53	101,189
Reportable segment liabilities	176,421	86,448	169,213	11,793	29,723	284,944	758,542

Note: The reportable segment assets of Guangdong Medi-World as at 31 December 2013 excluded RMB503,086,000 of investment in subsidiaries (2012: RMB350,586,000)

(ii) Reconciliations of reportable segment revenues and profit or loss

	2013	2012
	RMB'000	*RMB'000*
		(Restated)
Revenue		
Reportable segment revenue	**2,369,773**	1,639,236
Elimination of inter-segment revenue	**(975,160)**	(607,470)
Consolidated turnover	**1,394,613**	1,031,766
Profit		
Reportable segment profit	**380,817**	274,173
Elimination of inter-segment profits	**(28,960)**	(10,759)
Reportable segment profit derived from the Group's external customers	**351,857**	263,414
Other revenue and net income	**23,915**	25,315
Depreciation and amortisation	**(68,281)**	(35,729)
Finance costs	**(35,182)**	(19,389)
Unallocated head office and corporate expenses	**(34,734)**	(17,205)
Consolidated profit before taxation	**237,575**	216,406

(iii) Geographic information

Analysis of the Group's turnover and results as well as analysis of the Group's carrying amount of segment assets and additions to property, plant and equipment by geographical market has not been presented as substantially all of the Group's assets are located in the PRC.

3 Other revenue and net income

	2013	2012
	RMB'000	*RMB'000*
		(Restated)
Other revenue		
Government grants	**7,390**	4,035
Interest income^	**7,748**	20,265
Rental income	**631**	818
	15,769	25,118

^ The interest income mainly includes nil (2012: RMB6,779,000 as restated) from the loan to Guizhou Zhongtai and RMB3,716,000 (2012: RMB11,574,000 as restated) receivables from the government as a result of the disposal of land use right located in Foshan. The government agreed to pay an interest on outstanding balance, calculated at the one year benchmark lending rate of People's Bank of China.

	2013	2012
	RMB'000	*RMB'000*
		(Restated)
Other net income		
Net loss on disposal of fixed assets	**(892)**	(361)
Available-for-sale securities:		
– gain on disposal reclassified from equity	**9,621**	–
Exchange gain	**1,412**	812
Others	**(1,995)**	(254)
	8,146	197

4 Profit before taxation

Profit before taxation is arrived at after charging/(crediting):

	2013 *RMB'000*	2012 *RMB'000* (Restated)
(a) Finance costs:		
Interest on bank advances and other borrowings wholly repayable within five years	**35,182**	24,639
Less: interest expense capitalised into construction in progress*	**–**	(5,250)
	35,182	19,389

* The borrowing costs have been capitalised at a rate of 5.400%-7.870% per annum during the year ended 31 December 2012.

	2013 *RMB'000*	2012 *RMB'000* (Restated)
(b) Staff costs:		
Salaries, wages and other benefits	**208,982**	135,750
Contributions to defined contribution retirement plans	**17,290**	14,442
	226,272	150,192
(c) Other items		
Auditors' remuneration	**3,967**	1,929
Depreciation		
– investment properties	**162**	25
– assets held for use under operating leases	**2,566**	1,870
– other property, plant and equipment	**47,149**	25,120
Amortisation		
– intangible assets	**18,404**	8,714
Impairment losses recognised		
– trade and other receivables	**1,521**	2,198
Operating lease charges: minimum lease payments	**4,563**	4,357
Research and development costs	**45,947**	34,873
Rentals receivable from investment properties	**(631)**	(818)
Cost of inventories	**568,834**	467,753

5 Income tax in the consolidated income statement

(a) Taxation in the consolidated income statement represents:

	2013	2012
	RMB'000	*RMB'000*
		(Restated)
Current tax		
PRC enterprise income tax for the year	**54,769**	46,536
Under-provision in respect of prior years	**269**	686
	55,038	47,222
Deferred tax		
Reversal of temporary differences	**(16,820)**	(3,833)
	38,218	43,389

No provision has been made for the Hong Kong Profits Tax as the Company and its Hong Kong incorporated subsidiaries sustained losses in Hong Kong for taxation purposes during the year (2012: nil).

Pursuant to the Corporate Income Tax Law of PRC, the statutory tax rate applicable to the Group's PRC subsidiaries is 25%, except for: 1) Feng Liao Xing, Dezhong and Guangdong Medi-World, which were recognised as advanced and new technology enterprises to enjoy a preferential enterprise income tax rate of 15% in 2013 (2012: 15%) pursuant to documents issued jointly by Guangdong Science and Technology Department, Guangdong Provincial Finance Bureau, Guangdong Provincial Office of the State Administration of Taxation and Guangdong Provincial Local Taxation Bureau; 2) Jingfang, a newly acquired subsidiary in 2013, which was recognised as an advanced and new technology enterprise to enjoy a preferential enterprise income tax rate of 15% in 2013 pursuant to documents issued jointly by Anhui Science and Technology Department, Anhui Provincial Finance Bureau, Anhui Provincial Office of the State Administration of Taxation and Anhui Provincial Local Taxation Bureau; and 3) Tongjitang Pharmaceutical, Guizhou LLF, Pulante and Guizhou Zhongtai, being a qualified enterprise located in the western region of the PRC, enjoys a preferential income tax rate of 15% effective retroactively from 1 January 2011 to 31 December 2020 pursuant to CaiShui [2011] No. 58 dated 27 July 2011.

Pursuant to the Corporate Income Tax Law of the PRC and its relevant regulations, PRC-resident enterprises are levied withholding income tax at 10% on dividends to their non-PRC-resident corporate investors for earnings accumulated beginning on 1 January 2008. Undistributed earnings generated prior to 1 January 2008 are exempted from such withholding tax. Under the Sino-Hong Kong Double Tax Arrangement and its relevant regulations, a qualified Hong Kong tax resident which is the "beneficial owner" and holds 25% or more of the equity interest of a PRC-resident enterprise is entitled to a reduced withholding tax rate of 5%. The Group's certain Hong Kong incorporated subsidiaries, which are the qualified Hong Kong tax residents, are subject to withholding tax rate of 5% on retained earnings beginning on 1 January 2008.

As a part of the continuing evaluation of the funding needs of its subsidiaries, the directors have determined that the undistributed profits of the Group's PRC subsidiaries on or after 1 January 2013 will not be distributed in the foreseeable future. As such, no further deferred tax liabilities in this regard have been recognised on the undistributed profits of RMB281,184,000 earned by the Group's PRC subsidiaries for the year ended 31 December 2013.

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2013	2012
	RMB'000	*RMB'000*
		(Restated)
Profit before taxation	**237,575**	216,406
Notional tax on profit before taxation, calculated at rates applicable to profit in the jurisdictions concerned	**58,505**	56,147
Tax effect on non-deductible expenses	**2,462**	1,656
Income tax concessions	**(27,020)**	(23,078)
Withholding tax on undistributed profits of PRC subsidiaries	**–**	7,978
Under-provision in respect of prior year	**269**	686
Tax effect of unused tax losses not recognised	**4,002**	–
Actual tax expense	**38,218**	43,389

6 Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB198,463,000 (2012: RMB168,526,000 as restated) and the weighted average of 2,050,558,456 ordinary shares (2012: 1,783,410,807 ordinary shares) in issue during the year, calculated as follows:

(i) Weighted average number of ordinary shares

	2013	2012
	'000	*'000*
Issued ordinary shares at 1 January	**1,783,411**	1,783,411
Effect of shares issued	**267,147**	–
Weighted average number of ordinary shares at 31 December	**2,050,558**	1,783,411

(b) Diluted earnings per share

There were no dilutive potential ordinary shares during the years.

7 Intangible assets

	The Group					
	Product protection rights	Trademarks	Distribution network	Software	Customer relationship	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost:						
At 1 January 2012 (Restated)	65,400	48,695	59,000	782	744	174,621
At 31 December 2012 (Restated)	65,400	48,695	59,000	782	744	174,621
At 1 January 2013	65,400	48,695	59,000	782	744	174,621
Additions	–	–	–	588	–	588
Acquisition of subsidiaries	582,458	251,863	818	–	106,337	941,476
Disposals	–	–	–	(138)	–	(138)
At 31 December 2013	647,858	300,558	59,818	1,232	107,081	1,116,547
Accumulated amortisation and impairment loss:						
At 1 January 2012 (Restated)	65,400	9,306	17,208	302	–	92,216
Amortisation for the year (Restated)	–	2,459	5,900	194	161	8,714
At 31 December 2012 (Restated)	65,400	11,765	23,108	496	161	100,930
At 1 January 2013	65,400	11,765	23,108	496	161	100,930
Amortisation for the year	8,159	2,036	6,002	286	1,921	18,404
Written back on disposals	–	–	–	(138)	–	(138)
At 31 December 2013	73,559	13,801	29,110	644	2,082	119,196
Net book value:						
At 31 December 2013	574,299	286,757	30,708	588	104,999	997,351
At 31 December 2012 (Restated)	–	36,930	35,892	286	583	73,691

The amortisation charge for the year is mainly included in "cost of sales" in the consolidated income statement.

Trademarks with the carrying amount of RMB251,863,000, newly acquired through the acquisition of Tongjitang, are assessed to have indefinite useful lives when, based on an analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the Group. The recoverable amount of the trademark that has indefinite useful life is estimated annually whether or not there is any indication of impairment.

The recoverable amount of the trademark with indefinite useful life is determined based on value-in-use calculations by preparing cash flow projections of the relevant CGU derived from the most recent financial forecast approved by the management covering a five-year period and extrapolated to cover a period of six more years with an estimated increase in selling prices and costs of 3% and no growth in sales volume. The rates used to discount the forecast cash flows at 15.26%. No impairment loss was recognised during the year ended 31 December 2013.

8 Goodwill

	The Group	
	2013	2012
	RMB'000	*RMB'000*
		(Restated)
Cost and carrying amount:		
At 1 January	**169,170**	169,170
Addition acquired through business combination	**1,021,882**	–
At 31 December	**1,191,052**	169,170

Goodwill acquired through business combination is allocated to the Group's cash-generating units ("CGU") identified as follows:

	The Group	
	2013	2012
	RMB'000	*RMB'000*
		(Restated)
Manufacture and sale of pharmaceutical products – Dezhong	**100,391**	100,391
Manufacture and sale of pharmaceutical products – Feng Liao Xing	**23,664**	23,664
Manufacture and sale of pharmaceutical products – Guangdong Medi-World	**26,055**	26,055
Manufacture and sale of pharmaceutical products – Luya	**11,221**	11,221
Sale of pharmaceutical products – Feng Liao Xing Material & Slices	**2,449**	2,449
Sale of pharmaceutical products – Winteam Sales	**5,390**	5,390
Manufacture and sale of pharmaceutical products – Tongjitang	**927,895**	–
Manufacture and sale of pharmaceutical products – Guizhou Zhongtai and its subsidiaries	**93,987**	–
	1,191,052	169,170

The recoverable amount of the CGU is determined based on value-in-use calculations. The key assumptions used in the valuations are those regarding the expected changes to selling prices and costs, and discount rates. The changes in selling prices and costs are based on historical operating records and expectation of future changes in the market. Discount rates applied are able to reflect the current market assessments of the time value of money and the risks specific to the CGU.

The Company determined the value-in-use by preparing cash flow projections of each of the CGU derived from the most recent financial forecast approved by the management covering a four-year period and extrapolated to cover a period of two more years with an estimated increase in selling prices and costs of 3% (2012: 7%) and no growth in sales volume. The rates used to discount the forecast cash flows range from 14.09% to 15.03% (2012: 12%).

9 Trade and other receivables

	The Group	
	2013	2012
	RMB'000	*RMB'000*
		(Restated)
Current		
Trade receivables	**415,275**	171,160
Bills receivables	**508,327**	166,226
Less: allowance for doubtful debt	**(16,431)**	(9,475)
	907,171	327,911
Other receivables	**109,661**	114,875
	1,016,832	442,786
Non-current		
Other receivables	**161,464**	14,407
	1,178,296	457,193

(a) Ageing analysis

As of the end of the financial year, the ageing analysis of trade receivables (which are included in trade and other receivables), based on the invoice date, is as follows:

	The Group	
	2013	2012
	RMB'000	*RMB'000*
		(Restated)
Within 3 months of invoice date	**320,585**	133,051
3 to 6 months after invoice date	**53,314**	14,945
More than 6 months less than 12 months after invoice date	**22,106**	13,689
More than 12 months after invoice date	**19,270**	9,475
	415,275	171,160

Trade receivables are due within 30 to 90 days from the date of billing. All of the trade and bills receivables are expected to be recovered within one year.

10 Trade and other payables

	The Group	
	2013	2012
	RMB'000	*RMB'000*
		(Restated)
Trade creditors	**152,364**	82,200
Other creditors and accrued charges	**426,258**	112,085
Advances received from customers	**17,141**	11,527
	595,763	205,812

As of the end of the financial year, the ageing analysis of trade creditors (which are included in trade and other payables), based on the invoice date, is as follows:

	The Group	
	2013	2012
	RMB'000	*RMB'000*
		(Restated)
Due within 1 month or on demand	**152,364**	82,200

Other creditors and accrued charges mainly include accrued staff costs and benefits, accrued sales rebates to customers and other tax payables.

All of the trade and other payables are expected to be settled within one year or payable on demand.

11 Dividends

(i) Dividends payable to equity shareholders of the Company attributable to the year

	2013	2012
	RMB'000	*RMB'000*
		(Restated)
Interim dividend declared and paid of nil cents per ordinary share (2012: 2.5 cents per ordinary Share)	**–**	36,275

No final dividend has been proposed by the Company after the end of the reporting period attributable to the year ended 31 December 2013 (2012: nil).

(ii) Dividends payable to equity shareholders of the Company attributable to the the previous financial year, approved and paid during the year

	2013	2012
	RMB'000	*RMB'000*
		(Restated)
Final dividend proposed in respect of the pervious financial year, approved and paid during the year of nil cents per ordinary share (2012: 5 cents per ordinary share)	–	72,550

FINANCIAL REVIEW

Turnover

During the reporting period, the Group's turnover amounted to RMB1,394,613,000, or an increase of 35.2% from RMB1,031,766,000 of the same period last year. The growth of turnover was attributable to a combination of factors, including optimization of product mix and a new pricing policy being implemented to some products. The prices of the products concerned were increased, resulting in a growth of turnover. In addition, Tongjitang's business, which was acquired during the year, also raised the turnover of the Group.

Cost of sales and gross profit margin

During the reporting period, the Group's cost of sales was approximately RMB568,834,000, representing an increase of 21.6% as compared to approximately RMB467,753,000 for the corresponding period last year. Direct raw materials, direct labor and production overhead accounted for approximately 74.3%, 13.0% and 12.7% of the total cost of sales, respectively, as compared to 71.4%, 10.8% and 17.8% for the corresponding period last year. Gross profit for the period was approximately RMB825,779,000, or an increase of RMB261,766,000 from approximately RMB564,013,000 of the same period last year, Gross profit margin also rose to 59.2% from 54.7% of the same period last year.

Other revenue

During the year under review, the Group's other revenue was approximately RMB15,769,000, representing an decrease of approximately 37.2% compared to approximately RMB25,118,000 for the corresponding period last year.

	2013 *RMB'000*	2012 *RMB'000* (Restated)	Change
Interest income	**7,748**	20,265	–61.8%
Government grants	**7,390**	4,035	83.1%
Rental income	**631**	818	–22.9%
Total	**15,769**	25,118	–37.2%

Interest income decreased, which was mainly because the major interest income in 2012 from the compensation for land premium of the land for headquarters and interest income from Guizhou Zhongtai were non-recurrent income, and were terminated respectively during the year under review. The increase in government grants was mainly due to the relevant income of approximately RMB3,978,000 from Tongjitang after the acquisition.

Other net income

During the year under review, the Group's other net income was approximately RMB8,146,000, representing an increase of 4,035.0% as compared to approximately RMB197,000 for the corresponding period last year. Other net income rose mainly because of the selling of stock investment in the market in order to optimise resource allocation, and to spin-off non-core business. The net income obtained was approximately RMB9,621,000.

Sales and distribution costs

During the year under review, the Group's sales and distribution costs amounted to approximately RMB404,629,000 (2012: RMB235,661,000).

	2013 *RMB'000*	2012 *RMB'000* (Restated)	Change
Advertising, promotion and traveling expenses	**227,509**	132,790	71.3%
Salary expenses of sales and marketing staffs	**109,440**	68,972	58.7%
Distribution costs	**13,263**	11,547	14.9%
Other sales and distribution costs	**54,417**	22,352	143.4%
Total	**404,629**	235,661	71.7%

The increase of 71.7% of sales and distribution costs was due to the increase in staff and advertising expenses for market expansion during the year under review, as well as the related expenses incurred after the acquisition of Tongjitang.

Administrative Expenses

During the year under review, the Group's administrative expenses amounted to approximately RMB172,308,000 (2012: RMB117,872,000).

	2013 ***RMB'000***	2012 *RMB'000* (Restated)	Change
Staff salary	**52,099**	33,006	57.8%
Depreciation and amortisation	**15,412**	10,967	40.5%
Expenses for product research and development	**45,947**	34,873	31.8%
Office rental cost and other expenses	**58,850**	39,026	50.8%
Total	**172,308**	117,872	46.2%

The increase in administrative expenses was mainly due to the expenses incurred by the companies acquired during the year, of which approximately RMB22,433,000 was attributable to Guizhou Zhongtai and its subsidiaries and approximately RMB16,890,000 was attributable to Tongjitang.

Profit from Operations

During the year under review, the Group's profit from operations was approximately RMB272,757,000, representing an increase of 15.7% as compared to approximately RMB235,795,000 for the same period last year, while operating profit margin (defined as profit from operations divided by total turnover) decreased to 19.6% from 22.9% for the same period last year.

Finance Costs

During the year under review, the Group's finance costs amounted to approximately RMB35,182,000 (2012: RMB19,389,000), and the higher finance costs as compared with the corresponding period last year was attributable to the impact of the acquisition projects, resulting in all increase of the Group's bank and other borrowings to approximately RMB1,251,896,000 (31 December 2012: RMB414,420,000). Moreover, the interest expense of approximately RMB5,250,000 was capitalized in the corresponding period last year as work-in-progress. After the projects was completed during this period, no more capitalization treatment was carried out. The effective interest rate for the loans was 5.17% (31 December 2012: 6.75%).

Earnings per share

During the year under review, the basic earnings per share was RMB9.68 cents, representing an increase of 2.4% as compared to RMB9.45 cents for the corresponding period last year. During the year a total of 750,488,379 additional new shares were issued successively, so that the number of shares increased from 1,783,410,807 shares of the corresponding period last year to 2,533,899,186 shares, and the weighted average number of shares was increased to 2,050,558,456. However basic earnings per share increase because the good business acquired generated excellent results in the year which offset the impact. Profit attributable to equity shareholders for the year increased by 17.8% to approximately RMB198,463,000 (2012: RMB168,526,000).

Liquidity and Financial Resources

As at 31 December 2013, the Group's current assets amounted to approximately RMB1,778,150,000 (31 December 2012: RMB814,491,000), which included cash, cash equivalents and deposits with banks of approximately RMB349,650,000 (31 December 2012: RMB133,883,000), as well as trade and other receivable of approximately RMB1,016,832,000 (31 December 2012: RMB442,786,000). Current liabilities amounted to approximately RMB1,264,388,000 (31 December 2012: RMB649,252,000). Net current assets aggregated to approximately RMB513,762,000 (31 December 2012: RMB165,239,000). The Group's current ratio was 1.4 (31 December 2012: 1.3). The gearing ratio (defined as bank loans divided by total equity attributable to equity shareholders of the Company) decreased to 45.4% from 50.0% as at 31 December 2012. The gearing ratio decreased because the increase of equity through the issue of new shares for the acquisition projects exceeded the additional liabilities funded by bank loans.

Bank and other Loans and Pledge of Assets

As at 31 December 2013, the balance of the Group's bank and other loans was approximately RMB1,251,896,000 (31 December 2012: RMB414,420,000), of which approximately RMB338,928,000 (31 December 2012: RMB254,420,000) was secured by the Group's assets with book value of approximately RMB189,003,000 (31 December 2012: RMB189,366,000) and guarranted by a shareholder. The increase of bank loans was mainly due to paying the consideration of the acquisition of Tongjitang and the retention of the existing bank loans of Tongjitang.

Contingent Liabilities

The Group did not have any contingent liabilities as at 31 December 2013 (31 December 2012: nil).

Employee and Remuneration Policies

As at 31 December 2013, the Group employed a total of 6,719 (31 December 2012: 3,167) staff members, (including directors of the Company), of which the number of sales staff, production staff and those engaged in R&D, administration and senior management were 3,714, 2,169and 836 respectively. Remuneration packages principally comprised salary and discretionary performance bonus based on individual merits. The Group's total remuneration for the period was approximately RMB226,272,000 (31 December 2012: RMB150,192,000).

FINAL DIVIDEND

The Board has not recommended and the payment of a final dividend for the year ended 31 December 2013 (2012: nil).

ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held at Conference Room, 1st Floor, No. 2 Rong Gui Qiao Xi Road, Shunde District, Foshan City, Guangdong Province, the People's Republic of China on Thursday, 5 June 2014 at 2:00 p.m. (the "AGM").

CLOSURE OF REGISTER OF MEMBERS

To ascertain the shareholders' entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Friday, 30 May 2014 to Thursday, 5 June 2014, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the forthcoming annual general meeting, all duly completed transfer forms accompanied by the relevant share certificates must be lodged with the share registrars of the Company, Computershare Hong Kong Investor Services Limited at Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Thursday, 29 May 2014.

PURCHASE, SALES OR REDEMPTION OF THE COMPANY'S LISTED SHARES

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining high standard of corporate governance. The Company has complied with the Code on Corporate Governance Practices as set out in the Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the year ended 31 December 2013.

AUDIT COMMITTEE

The Company's audit committee has met with the Group's senior management and the auditors to review the annual results and the financial statements for the year ended 31 December 2013.

By Order of the Board
China Traditional Chinese Medicine Co. Limited
WU Xian
Chairman

Hong Kong, 22 March 2014

As at the date of this announcement, the Board comprises 11 directors, of which Mr. WU Xian, Mr. YANG Bin and Mr. WANG Xiaochun are executive Directors; Mr. SHE Lulin, Mr. LIU Cunzhou, Mr. DONG Zenghe and Mr. ZHAO Dongji are on-executive Directors; and Mr. ZHOU Bajun, Mr. XIE Rong, Mr. FANG Shuting and Mr. YU Tze Shan Hailson are independent non-executive Directors.